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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

V-Mart Retail

07 November 2023

Corrective measures underway but challenging journey ahead

RESULT UPDATE

Sector: Retail **Rating:** HOLD
CMP: Rs 1,688 **Target Price:** Rs 1,750

Stock Info

Sensex/Nifty	64,942/ 19,407
Bloomberg	VMART IN
Equity shares (mn)	19.8
52-wk High/Low	Rs 3,105/1,591
Face value	Rs 10
M-Cap	Rs 33bn/USD 0.4bn
3-m Avg volume	USD 0.8mn

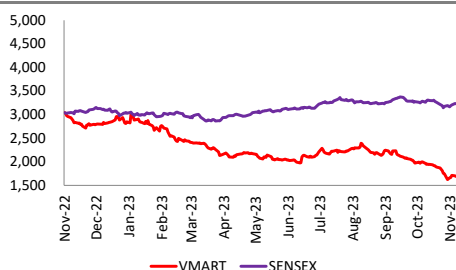
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Sales	24,648	28,322	33,397
PAT	-78	-424	-275
EPS (Rs)	(4.3)	(23.4)	(15.2)
PE (x)	nm	nm	nm
EV/EBITDA (x)	17.3	17.4	14.6
P/BV (x)	1.4	1.2	1.0
EV/Sales	1.9	1.7	1.5
RoE (%)	-0.9	-5.1	-3.5
RoCE (%)	5.3	3.5	5.0
NWC (days)	57	55	51
Net gearing (x)	0.2	0.2	0.2

Shareholding Pattern (%)

	Sep23	Jun23	Mar23
Promoter	44.3	44.3	44.3
-Pledged	-	-	-
FII	14.3	14.3	14.2
DII	32.6	31.0	31.8
Others	8.7	9.9	9.7

Stock Performance (1-year)



V-Mart Retail's (VMART) 2QFY24 results were in-line with our muted expectations, with margins under significant pressure given losses in *Limeroad* exacerbated by higher discounting and price cuts in core business. Revenue witnessed growth at 8.5% (SSSG -6%; L2L sales volume grew 6%) given the shift in festive season. VMart's core business grew 6% YoY (77% contribution to sales) whereas *Unlimited* revenue growth remained flat (19% contribution to sales). *LimeRoad* business grew 26% QoQ contributing 4% to revenue. ASPs contracted on an overall level (-12%YoY) and apparel (-13%YoY) due to focus on lower price points and are expected to remain around current levels going forward with the company targeting to attract value-conscious customers; while footfalls grew 13% YoY, with a conversion rate of 55% during the quarter. Gross margin declined 169bps YoY to 34.6% due to lower *Unlimited* sales and higher discounting while EBITDA margin contracted sharply to 0.1% (-1,045bps YoY) due to *LimeRoad* losses and 687bps increase in other expenses. VMART added 8 new stores and closed 2 stores in 2QFY24, taking the total store count to 437 (VMART: 353, *Unlimited*: 84). Total retail area grew 6% YoY to 3.8mn sqft (including *Unlimited*).

Management maintained a positive outlook on demand going ahead with a good start to the festive season and consumer confidence inching back, but we remain wary of their ability to tackle competition. They do not intend to slow down on footprint expansion or online investments as of now, which in our view would keep the financials depressed for the forthcoming quarters. We build in 16%/11% revenue/EBITDA CAGR over FY23-25E despite the low base. Our cautious outlook stems from 1) Sales per sq ft (SPSF) remaining well below pre-COVID levels given soft demand, 2) margin and return ratio impact of investments in *LimeRoad* and warehousing and 3) increasing competitive intensity. Despite our negative stance, we maintain our HOLD rating given the sharp 26% correction in last 3 months with a TP of Rs 1,750 (earlier Rs 2,270) based on an EV/EBITDA multiple of 15x FY25E. We would revisit our view once we see an improvement in demand conditions/revenue throughput and tangible benefits of the recent investments made by the company driving a recovery in return ratios.

Demand remains soft in Q2: Revenue growth stood steady at 8.5% during the quarter led by L2L sales volume growth of 6%. Q2 is not among the best quarters for the company. Moreover, sales were significantly hampered by Adhik Mas and the festive season shift. Due to a change in customer purchasing habits from premium to economy, the company continued to focus on growing volumes while lowering ASP sharply. Consumers in smaller towns continue to face inflationary pressures and have been postponing shopping. There has been more supply than demand in value retail in Tier 3 cities compared to pre-Covid with multiple national retailers expanding in those markets. While management remains upbeat that consumer confidence and spending will rebound with inflation cooling off and sentiment improving, we remain cautious on that front at least for the next few quarters. We expect SSSG to be 9%/10% from a low base during FY24/FY25E for existing stores going ahead. We are building in SPSF CAGR of 2% driving revenue CAGR of 16%.

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Investors are advised to refer disclosures made at the end of the research report.

Margin impacted due to *LimeRoad* losses and inferior sales mix: The company reported 34.6% gross margin which declined 169 bps YoY due to the strategic price cuts and an inferior sales mix, while EBITDA margin contracted 1,047 bps YoY to 0.1% due to *LimeRoad* losses and 687 bps increase in other expenses. PAT loss stood at Rs 641 mn (vs Rs 113 mn PAT in 2QFY23). Going forward, *LimeRoad* losses are expected to be c. 20% of Group EBITDA from 2H FY24 onwards. We expect *LimeRoad* losses to be in the range of Rs500-600 mn annually, which will improve sequentially going ahead. We expect margin performance to remain muted during FY24.

Vmartretail.com completely transitioned to Limeroad - This change resulted in an increase in online Vmart sales. In order to achieve its targeted EBITDA margins, Limeroad will focus on optimizing customer costs, complete more projects, and integrate offline customers online via the app. which should generate synergies over the medium term. The bulk of Limeroad's expenses go towards marketing, which is anticipated to decrease as a percentage of revenue as the company grows in the future. Moreover, in 2HFY24, burn rate for Limeroad is expected to reduce further after a decrease seen in 2Q as well. The company delivered a 21% QoQ increase in sales with a 22% decline in burn rate.

Higher footfalls not translating into higher growth: Footfalls grew 13% YoY to 11 mn; however there has been a shift in consumers purchasing pattern towards more cheaper products which impacted sales alongside the growth in competition among value retailers further led to a conversion rate of 55% in 2QFY24. We expect the company to come up with much better designs at attractive price points to regain some lost market share and improve conversion rates at its stores.

Competition and pressure on mass segment consumers remain key headwinds: Consumers in smaller towns and rural areas continue to bear the impact of inflationary pressures on consumption. While some recovery can be expected with inflation cooling off and the company focusing on lower priced products, given the aggressive area addition, SPSF numbers would take more time than expected earlier to reach pre-COVID levels. Moreover, intense competition from pan-India retailers, who have more than doubled their store presence in smaller cities vs the pre-pandemic period, is also resulting in market share loss for value retailers. Overall, the company is focusing on product design, sourcing, vendor development and digital transformation to get ready for a scale up, once the environment improves.

Exhibit 1: Quarterly performance

YE March (Rs mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Net Revenues	5,494	5,062	6,785	8.5	(19.0)
Purchase of traded goods	3,593	3,224	4,358	11.4	(17.6)
(% of sales)	65.4	63.7	64.2		
Employee cost	713	560	717	27.2	(0.6)
(% of sales)	13.0	11.1	10.6		
Others	1,182	742	1,186	59.4	(0.3)
(% of sales)	21.5	14.7	17.5		
EBITDA	7	536	525	(98.7)	(98.7)
EBITDA margin (%)	0.1	10.6	7.7		
Other income	20	27	15	(25.0)	32.1
PBIDT	27	562	540	(95.3)	(95.1)
Depreciation	532	441	499	20.7	6.6
Interest	359	279	330	28.8	8.7
PBT	(864)	(157)	(290)	nm	nm
Tax	(223)	(44)	(70)		
ETR (%)	25.8	27.9	24.2		
Adjusted PAT	(641)	(113)	(219)	nm	nm
PATAMI margin	(11.7)	(2.2)	(3.2)		
Reported PAT	(641)	(113)	(219)		
No. of shares (mn)	19.8	19.7	19.7		
Adj EPS (Rs)	(32.4)	(5.7)	(11.1)		

Source: Company, Systematix Institutional Research

Exhibit 2: Change in estimates

Particulars	Old Estimates		Revised Estimates		Variation (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	28,939	34,949	28,322	33,397	-2%	-4%
EBITDA	3,140	3,967	2,691	3,340	-14%	-16%
EBITDA Margin	10.9%	11.4%	9.5%	10.0%		
Adj. PAT	65	327	(424)	(275)	nm	nm

Source: Company, Systematix Institutional Research

Presentation takeaways

Revenue channel mix: V-Mart: 77% (including 2% digital); Unlimited: 19%; Limeroad: 4% (commission revenue).

Revenue segment mix: Fashion: 88% (including *LimeRoad*); Kirana: 12%.

SSSG: For 1HFY24, Total SSSG -4%; SSSG for V-mart at -3%; Unlimited SSSG at -10%

SSSV: For 1HFY24, Total SSSV 5%; 4% for V-mart; Unlimited SSSV at 9%

Steady store expansion: 437 total stores (VMart: 353/ Unlimited 84); opened 8 stores, closed 2 store during the quarter.

Increased footfalls: 11 mn footfalls in 2QFY24 vs 9 mn footfalls in 2QFY23.

Conversion rate: 55% in 2QFY24 vs 55% in 2QFY23.

Decline in Total ASP: Total ASP: Rs195 (-12%YoY), V-Mart: Rs173 (-11%YoY), Unlimited: Rs417 (-18%YoY).

Contraction in Apparel ASP: Total ASP: Rs317 (-13%YoY), V-Mart: Rs291 (-11% YoY), Unlimited: Rs441 (-19%YoY).

Retail space: Total retail space of 3.8 mn sq.ft (3 mn sq.ft of V-Mart, 0.8 mn sq.ft of Unlimited).

Increase in shrinkage: In 1HFY24, 0.7% in 2QFY24 vs -0.2% in 2QFY23.

Limeroad: NMV stood at Rs 538 mn (40% growth); Service revenue at Rs 219 mn (26% growth); Average order value grew 8% to Rs 779 vs Rs 719 in Jun'23.

Conference call takeaways

Macro scenario – Company is witnessing improvement in market conditions. Small towns continue to face some challenges. However, healthy monsoon has benefitted the agricultural economy.

Sluggish Q2 performance – Q2 is not among the best quarters for the company. Adhik mas and the festive shift further impacted sales. Company remained focused on increasing volumes by decreasing ASP due to a shift in consumer buying behavior from premium to economy.

Weak margin performance – Extended EOSS to clear inventory impacted gross margins negatively. Pushing of low margin Vmart inventory into Unlimited stores also impacted Unlimited margins. Company expects margins to be lower in FY24 compared to last year.

Q3 outlook – In Q3, company expects winter range and festive range to bring in strong results driving profitability. 25-30% revenue share in Q3 is coming from winter wear.

Footfalls – Footfalls grew 13% YoY to 11 mn in Q2. Company expects footfalls to increase in Q3.

Unlimited – New unlimited stores have performed as better as Vmart stores. Some legacy Unlimited stores are yet to showcase strong performance.

Limeroad – Vmartretail.com completely transitioned to Limeroad. Vmart sales grew online because of this transition. In Limeroad, majority of the cost is marketing cost

which is expected to reduce as a percentage of revenue as the business scales up going ahead. Limeroad will focus on optimizing customer cost, get more projects executed to get targeted EBITDA margins and integrate offline customer online when needed through the app. This integration is expected to drive synergies in the medium to long run. Going forward, LimeRoad losses are expected to be c. 20% of Group EBITDA.

Reducing burn rate in Limeroad –In 2HFY24, company expects burn rate to come down. During Q2 burn reduced 22% QoQ. Exit months of Sept compared to June saw burn reduction of 34%. November is expected to have 50% lower burn.

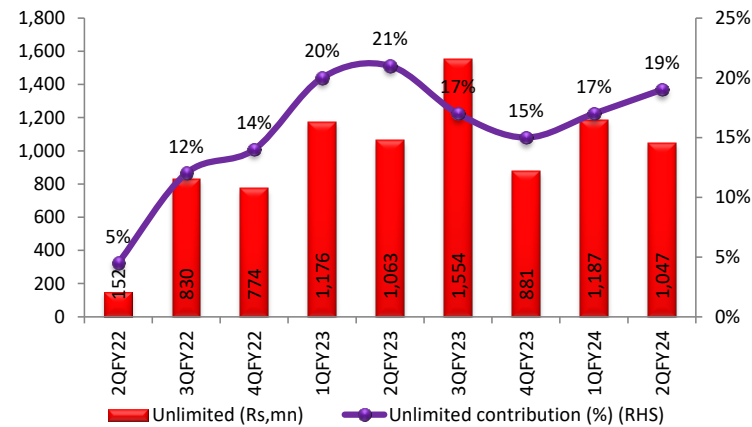
Value consumers - Company has bifurcated value consumers in 2 categories – 1) fashion forward (less sensitive to prices), 2) fashion follower (more sensitive to prices). Company believes delinking of growth from burn will help to reach profitability.

Expansion in South markets – Company is expanding in South with stores in Tamil Nadu and Kerala. ASP in South fell by 19%, however volumes grew 11%.

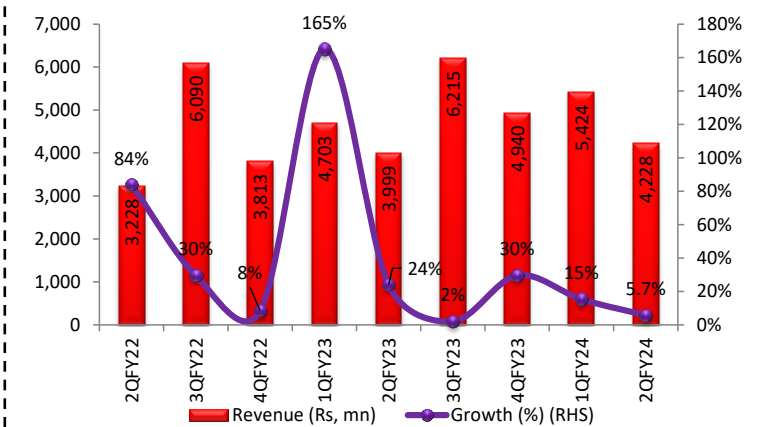
Store expansion – Company has opened 14 stores and closed 1 store in Q3 till date. Company expects to open +50 stores in FY24.

Inventory – Reduced by Rs 740 mn YoY despite festive and helped reduce working capital. FY23 inventory was high priced. Winter inventory is expected to be liquidated in Q3. 30% of the old inventory is yet to be liquidated. Currently stores have 60% inventory which is less than 6 months old.

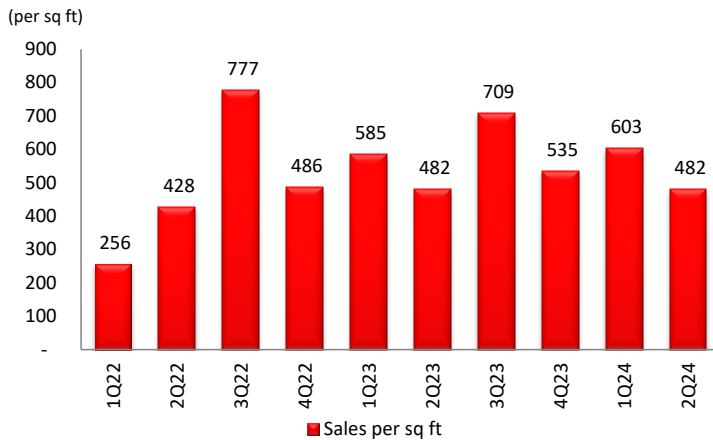
Growth outlook – Company aspires to grow sales by 15-20% in FY24 vs last year.

Exhibit 3: Unlimited contributed 19% to revenue

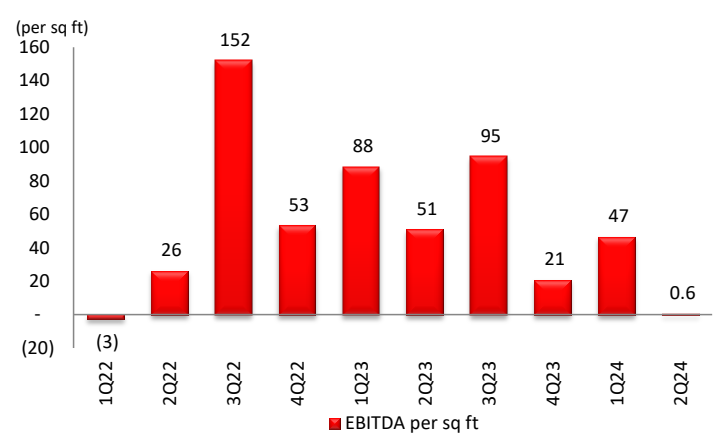
Source: Company, Systematix Institutional Research

Exhibit 4: VMart revenue (ex-Unlimited) grew 5.7% YoY

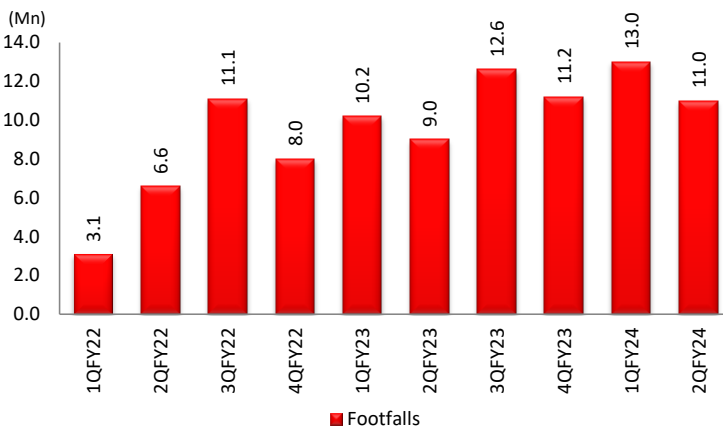
Source: Company, Systematix Institutional Research

Exhibit 5: Calculated sales per sq ft/month remained flat YoY

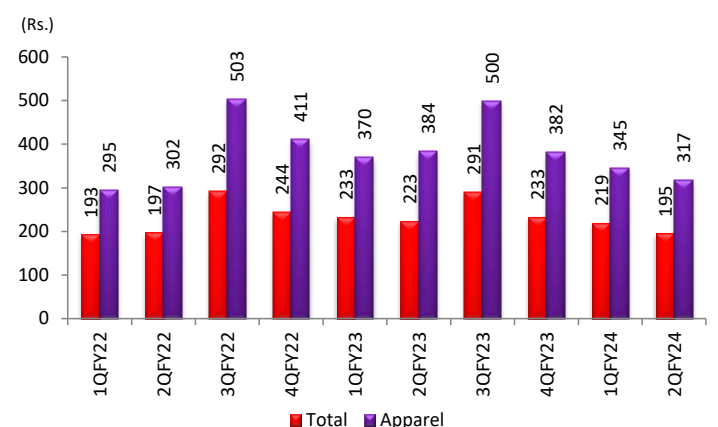
Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA per sq ft/month stood at Rs 0.6

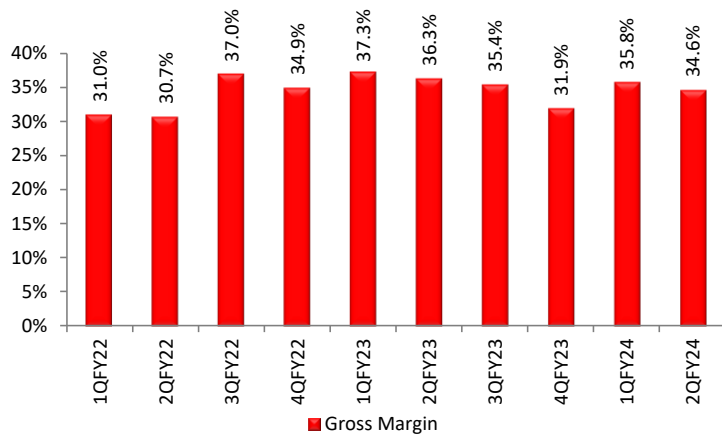
Source: Company, Systematix Institutional Research

Exhibit 7: Customer footfalls increased 13% YoY to 11mn

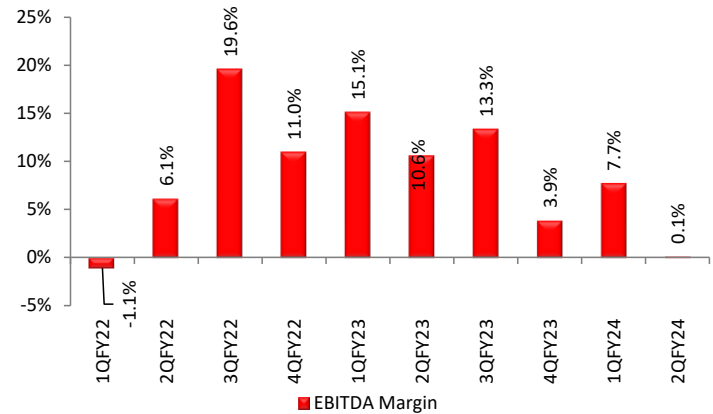
Source: Company, Systematix Institutional Research

Exhibit 8: ASP declined 12% YoY, Apparel ASP fell 13% YoY

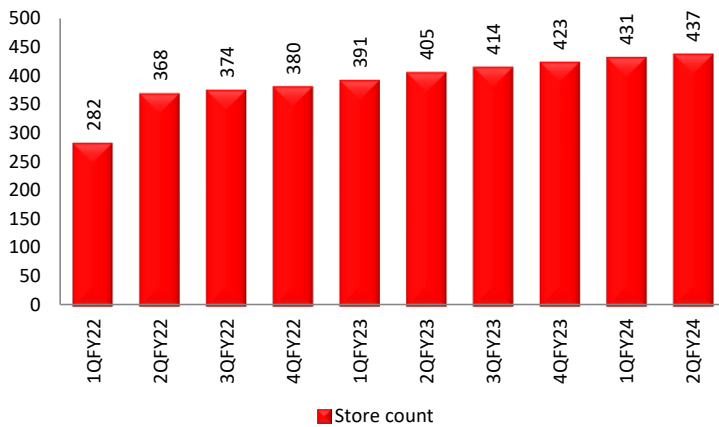
Source: Company, Systematix Institutional Research

Exhibit 9: Lower Gross margin led by inferior mix and price cuts

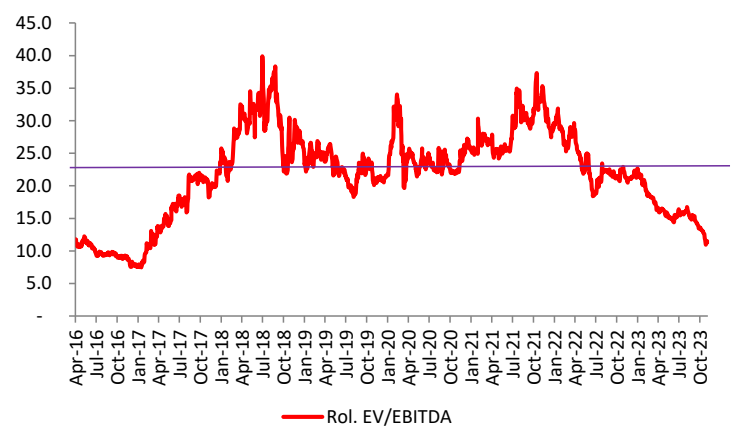
Source: Company, Systematix Institutional Research

Exhibit 10: EBITDA margin contracted sharply to 0.1%

Source: Company, Systematix Institutional Research

Exhibit 11: 6 net store additions in 2QFY24

Source: Company, Systematix Institutional Research

Exhibit 12: Currently trades at 11.3x one-year forward EV/EBITDA

Source: Bloomberg, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	10,755	16,662	24,648	28,322	33,397
Purchase of trad. goods	7,236	10,911	15,971	18,693	22,042
RM costs/inventories					
Gross Profits	3,519	5,751	8,677	9,629	11,355
Employee costs	1,169	1,796	2,555	2,974	3,507
Other expenses	1,038	1,911	3,433	3,965	4,509
Total Expenses	9,442	14,618	21,959	25,631	30,057
EBITDA	1,312	2,043	2,689	2,691	3,340
Depreciation	1,030	1,307	1,800	2,068	2,371
Other income	210	140	150	142	167
EBIT	493	876	1,039	765	1,135
Interest cost	589	772	1,169	1,331	1,503
PBT	(97)	104	(130)	(566)	(367)
Taxes	(35)	(12)	(52)	(143)	(93)
Adj. PAT	(62)	116	(78)	(424)	(275)
Extraordinaries	-	-	-	-	-
Reported PAT	(62)	116	(78)	(424)	(275)
No. of shares (mn)	20	20	20	20	20
Adj. EPS	(3.4)	6.4	(4.3)	(23.4)	(15.2)

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	197	197	198	198	198
Reserves and surplus	8,055	8,299	8,292	7,854	7,564
Total Equity	8,252	8,496	8,490	8,052	7,762
Total Debt	-	-	1,478	1,978	1,978
Other LT liabilities	5,690	8,997	11,964	12,002	13,959
Total Liabilities	13,942	17,493	21,932	22,032	23,699
Net Block	1,785	2,827	3,812	4,619	5,351
Net deferred tax	253	386	531	531	531
Other assets	5,291	8,436	11,413	10,177	10,631
CWIP	22	64	1,092	1,092	1,092
Investments	3,190	1,248	85	85	85
Cash	275	351	202	286	369
Inventories	4,283	6,682	8,706	9,311	10,065
Loans & Advances	5	5	4	4	4
Current Assets	5,666	7,773	10,492	11,181	12,017
Creditors	1,917	2,906	4,883	5,044	5,398
Other CL	121	116	29	29	29
Current Liabilities	2,264	3,241	5,493	5,654	6,008
Net Working Capital	3,401	4,532	4,998	5,527	6,009
Total Assets	13,942	17,493	21,932	22,032	23,699

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	(97)	104	(130)	(566)	(367)
Add: Depreciation	1,030	1,307	1,800	2,068	2,371
Add: Interest	589	772	1,169	1,331	1,503
Less: taxes paid	(35)	(118)	(182)	143	93
Add: other adjustments	(149)	(130)	8	-	-
Less: WC changes	182	(1,985)	(857)	(445)	(399)
Total OCF	1,493	(113)	1,808	2,530	3,201
OCF w/o WC changes	1,311	1,872	2,664	2,975	3,599
Capital expenditure	(410)	(1,512)	(2,783)	(1,600)	(1,600)
Creation of leased assets	-	-	-	-	-
Change in investments	(5,478)	(5,918)	(2,795)	-	-
Interest/Dividend recd.	1,701	8,666	3,992	-	-
Total ICF	(4,188)	1,237	(1,586)	(1,600)	(1,600)
Free Cash Flows	1,083	(1,624)	(976)	930	1,601
Share issuances	3,713	76	35	-	-
Change in borrowings	(0)	-	1,478	500	-
Dividends	-	-	(15)	(15)	(15)
Interest payment	(566)	(767)	(1,122)	(1,331)	(1,503)
Others	(278)	(354)	(750)	-	-
Total FCF	2,869	(1,045)	(374)	(846)	(1,518)
Net change in cash	174	80	(152)	84	83
Opening cash & CE	50	275	351	202	286
Closing cash & CE	224	354	199	286	369

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yoy growth in Revenue	(35.3)	54.9	47.9	14.9	17.9
Yoy growth in EBITDA	(38.6)	55.7	31.6	0.1	24.1
Yoy growth in Net income	(112.6)	(287.7)	(167.4)	439.7	(35.1)
Effective tax rate	35.8	(12.0)	39.7	25.2	25.2
EBITDA margin	12.2	12.3	10.9	9.5	10.0
PAT margin	(0.6)	0.7	(0.3)	(1.5)	(0.8)
RoCE	3.9	5.2	5.3	3.5	5.0
RoE	(1.0)	1.4	(0.9)	(5.1)	(3.5)
Net debt to equity (x)	(0.0)	(0.0)	0.2	0.2	0.2
Inventory days	145	146	129	120	110
Loans & Advances days	-	-	-	-	1
Payable days	65	64	72	65	59
NWC days	80	83	57	55	51
Per share numbers (Rs)					
Reported earnings	(3.4)	6.4	(4.3)	(23.4)	(15.2)
Dividend	-	0.8	-	0.8	0.8
Free cash	59.6	(89.5)	(53.7)	51.2	88.2
Book Value	418.8	430.2	429.4	407.2	392.6
Valuations (x)					
Price to diluted earnings	(536.3)	286.4	(425.2)	(78.8)	(121.5)
EV / EBITDA	29.4	20.5	17.3	17.4	14.6
Price to sales	3.1	2.0	1.4	1.2	1.0

Source: Company, Systematix Institutional Research

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